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8-11-04

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Alt 810-2004

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8. 53747

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Texas Capital Inc, dba  
First Austin Investments

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

4131 Spicewood Springs Road, Suite 1-4 6300 Bridge Point Pkwy Bld 2-STE 105  
(No. and Street)

Austin

(City)

Texas

(State)

78759 78730

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mark A. Coffelt

(512) 328-9321

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Tait, Weller & Baker

(Name - if individual, state last, first, middle name)

1818 Market Street, Suite 2400

(Address)

Philadelphia

(City)

PA

(State)

19103

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

AUG 13 2004

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FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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## OATH OR AFFIRMATION

I, Mark A. Coffelt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Austin Investments, as of December 31, 20 03, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Min D. Coffelt

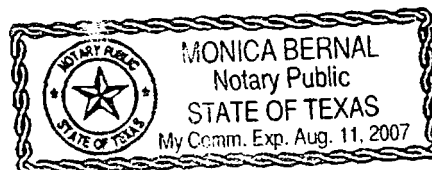
Signature

President

Title

Monica Bernal

Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Auditors' Report on Internal Control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

***TAIT, WELLER & BAKER***  
*Certified Public Accountants*

**FIRST AUSTIN INVESTMENTS**

***ANNUAL AUDITED REPORT***

***FORM X-17A-5***

**DECEMBER 31, 2003**

**TAIT, WELLER & BAKER**  
*Certified Public Accountants*

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**To the Shareholders  
First Austin Investments  
Austin, Texas**

We have audited the accompanying statement of financial condition of First Austin Investments as of December 31, 2003, and the related statements of income (loss), changes in ownership equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Austin Investments as of December 31, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in Pages 3, 4, 6 and 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Tait, Weller Baker*

**Philadelphia, Pennsylvania  
February 16, 2004**

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER First Austin Investments

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## STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY) 12/31/03

SEC FILE NO. 8-53747

Consolidated

Unconsolidated

X

99

98

198

199

### ASSETS

#### Allowable

#### Non-Allowable

#### Total

1. Cash	\$ 25,702	200	\$ 25,702	750
2. Receivables from brokers or dealers:				
A. Clearance account	51,872	295		
B. Other		300	550	810
3. Receivables from non-customers		355	600	830
4. Securities and spot commodities owned, at market value:				
A. Exempted securities	92,336	418		
B. Debt securities		419		
C. Options		420		
D. Other securities		424		
E. Spot commodities		430		
			92,336	850
5. Securities and/or other investments not readily marketable:				
A. At cost	130			
B. At estimated fair value		440	610	860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:				
A. Exempted securities	150			
B. Other securities	160			
		470	640	890
7. Secured demand notes:				
market value of collateral:				
A. Exempted securities	170			
B. Other securities	180			
8. Memberships in exchanges:				
A. Owned, at market	190			
B. Owned, at cost			650	
C. Contributed for use of the company, at market value			660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480	670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization		490	680	920
11. Other assets		535	735	930
12. TOTAL ASSETS	\$ 169,910	540	\$ 169,910	940

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See notes to financial statements

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER First Austin Investments

as of 12/31/03

### STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

#### LIABILITIES AND OWNERSHIP EQUITY

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable.....	\$ <u>1045</u>	\$ <u>1255</u> <sup>13</sup>	\$ <u>1470</u>
14. Payable to brokers or dealers:			
A. Clearance account.....	<u>2,480</u> <u>1114</u>	<u>1315</u>	<u>2,480</u> <u>1560</u>
B. Other..... <sup>10</sup>	<u>1115</u>	<u>1305</u>	<u>1540</u>
15. Payable to non-customers.....	<u>1155</u>	<u>1355</u>	<u>1610</u>
16. Securities sold not yet purchased, at market value.....		<u>1360</u>	<u>1620</u>
17. Accounts payable, accrued liabilities, expenses and other.....	<u>4,004</u> <u>1205</u>	<u>1385</u>	<u>4,004</u> <u>1685</u>
18. Notes and mortgages payable:			
A. Unsecured.....	<u>1210</u>		<u>1690</u>
B. Secured.....	<u>1211</u> <sup>12</sup>	<u>1390</u> <sup>14</sup>	<u>1700</u>
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		<u>1400</u>	<u>1710</u>
1. from outsiders <sup>9</sup> \$ <u>970</u>			
2. Includes equity subordination (15c3-1 (d)) of .... \$ <u>980</u>			
B. Securities borrowings, at market value:...		<u>1410</u>	<u>1720</u>
from outsiders \$ <u>990</u>			
C. Pursuant to secured demand note collateral agreements:.....		<u>1420</u>	<u>1730</u>
1. from outsider: \$ <u>1000</u>			
2. Includes equity subordination (15c3-1 (d)) of .... \$ <u>1010</u>			
D. Exchange memberships contributed for use of company, at market value.....		<u>1430</u>	<u>1740</u>
E. Accounts and other borrowings not qualified for net capital purposes.....	<u>1220</u>	<u>1440</u>	<u>1750</u>
20. TOTAL LIABILITIES.....	\$ <u>6,484</u> <u>1230</u>	\$ <u>1450</u>	\$ <u>6,484</u> <u>1760</u>

#### Ownership Equity

21. Sole proprietorship.....	<sup>15</sup> \$ <u>1770</u>
22. Partnership (limited partners.....) <sup>11</sup>	\$ <u>1780</u>
23. Corporation:	
A. Preferred stock.....	<u>1791</u>
B. Common stock.....	<u>10,000</u> <u>1792</u>
C. Additional paid-in capital.....	<u>69,529</u> <u>1793</u>
D. Retained earnings.....	<u>83,897</u> <u>1794</u>
E. Total.....	<u>1795</u>
F. Less capital stock in treasury..... <sup>16</sup>	<u>1796</u>
24. TOTAL OWNERSHIP EQUITY.....	\$ <u>163,426</u> <u>1800</u>
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY.....	\$ <u>169,910</u> <u>1810</u>

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# FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT PART IIA

**BROKER OR DEALER**      First Austin Investments

as of    12/31/03

## COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition.....	\$ 163,426	3480
2. Deduct ownership equity not allowable for Net Capital.....		3490
3. Total ownership equity qualified for Net Capital.....	163,426	3500
4. Add:		
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital.....		3520
B. Other (deductions) or allowable credits (List).....		3525
5. Total capital and allowable subordinated liabilities.....	\$	3530
6. Deductions and/or charges:		
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C) \$ 0	3540	
B. Secured demand note deficiency.....	3590	
C. Commodity futures contracts and spot commodities- proprietary capital charges.....	3600	
D. Other deductions and/or charges.....	3610	( 0 ) 3620
7. Other additions and/or allowable credits (List).....		3630
8. Net capital before haircuts on securities positions.....	\$ 163,426	3640
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):		
A. Contractual securities commitments.....	\$ 3660	
B. Subordinated securities borrowings.....	3670	
C. Trading and investment securities:		
1. Exempted securities.....	3735	
2. Debt securities.....	3733	
3. Options.....	3730	
4. Other securities..... (92,336 x .15) 13,850	3734	
D. Undue Concentration.....	3650	
E. Other (List).....	3736	( 13,850 ) 3740
10. Net Capital.....	\$ 149,576	3750

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Net capital reported on unaudited FOCUS Report	\$149,541
Adjustment to cash	66
Adjustment to market value	(37)
Adjustment to haircuts on securities	6
	<u>\$149,576</u>

See notes to financial statements

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER First Austin Investments

as of 12/31/03

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

### Part A

11. Minimum net capital required (6-2/3% of line 19)	\$ 0	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ 5,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$ 5,000	3760
14. Excess net capital (line 10 less 13)	\$ 144,576	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$ 148,928	3780

## COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$ 6,484	3790
17. Add:		
A. Drafts for immediate credit	\$ 3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$ 3810	
C. Other unrecorded amounts (List)	\$ 3820	3830
19. Total aggregate indebtedness	\$ 6,484	3840
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	% 4.33	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	3860

## COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

### Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$ N/A	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ 3880	3880
24. Net capital requirement (greater of line 22 or 23)	\$ 3760	3760
25. Excess net capital (line 10 less 24)	\$ 3910	3910
26. Net capital in excess of:		
5% of combined aggregate debit items or \$120,000	\$ N/A	3920

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### NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.



# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

**BROKER OR DEALER** First Austin Investments

For the period (MMDDYY) from 01/01/03 3932 to 12/31/03 3933  
 Number of months included in this statement 12 3931

### STATEMENT OF INCOME (LOSS)

#### REVENUE

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange .....	\$ 436,855	3935
b. Commissions on listed option transactions .....		3938
c. All other securities commissions .....		3939
d. Total securities commissions .....		3940
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange .....		3945
b. From all other trading .....		3949
c. Total gain (loss) .....		3950
3. Gains or losses on firm securities investment accounts .....	38,713	3952
4. Profit (loss) from underwriting and selling groups .....		3955
5. Revenue from sale of investment company shares .....		3970
6. Commodities revenue .....		3990
7. Fees for account supervision, investment advisory and administrative services .....		3975
8. Other revenue .....		3995
9. Total revenue .....	\$ 475,568	4030

#### EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers .....	\$	4120
11. Other employee compensation and benefits .....		4115
12. Commissions paid to other broker-dealers .....	66,984	4140
13. Interest expense .....		4075
a. Includes interest on accounts subject to subordination agreements .....	4070	
14. Regulatory fees and expenses .....	2,505	4195
15. Other expenses .....	15,951	4100
16. Total expenses .....	\$ 85,440	4200

#### NET INCOME

17. Net income (loss) before Federal income taxes and items below (Item 9 less Item 16) .....	\$ 390,128	4210
18. Provision for Federal income taxes (for parent only) .....		4220
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above .....		4222
a. After Federal income taxes of .....	4238	
20. Extraordinary gains (losses) .....		4224
a. After Federal income taxes of .....	4239	
21. Cumulative effect of changes in accounting principles .....		4225
22. Net income (loss) after Federal income taxes and extraordinary items .....	\$ 390,128	4230

#### MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items .....	\$	N/A	4211
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See notes to financial statements

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

**BROKER OR DEALER**      First Austin Investments

For the period (MMDDYY) from 01/01/03 to 12/31/03

## STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period .....	\$	59,929	4240
A. Net income (loss) .....		390,128	4250
B. Additions (Includes non-conforming capital of .....	\$	20,000	4260
C. Deductions (Includes non-conforming capital of .....	\$	306,631	4270
2. Balance, end of period (From item 1800) .....	\$	163,426	4290

## STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period .....	\$	N/A	4300
A. Increases .....			4310
B. Decreases .....			4320
4. Balance, end of period (From item 3520) .....	\$	N/A	4330

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

**BROKER OR DEALER** First Austin Investments

as of 12/31/03

### Exemptive Provision Under Rule 15c3-3

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon

which such exemption is based (check one only)

- A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 (\$5,000) X 4550
- B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained 4560
- C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm 4335 4570
- D. (k) (3)—Exempted by order of the Commission 4580

**Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.**

Type of Proposed withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
▼ 32 <span style="border: 1px solid black; padding: 0 5px;">4600</span>	<span style="border: 1px solid black; padding: 0 5px;">4601</span>	<span style="border: 1px solid black; padding: 0 5px;">4602</span>	<span style="border: 1px solid black; padding: 0 5px;">4603</span>	<span style="border: 1px solid black; padding: 0 5px;">4604</span>	<span style="border: 1px solid black; padding: 0 5px;">4605</span>
▼ 33 <span style="border: 1px solid black; padding: 0 5px;">4610</span>	<span style="border: 1px solid black; padding: 0 5px;">4611</span>	<span style="border: 1px solid black; padding: 0 5px;">4612</span>	<span style="border: 1px solid black; padding: 0 5px;">4613</span>	<span style="border: 1px solid black; padding: 0 5px;">4614</span>	<span style="border: 1px solid black; padding: 0 5px;">4615</span>
▼ 34 <span style="border: 1px solid black; padding: 0 5px;">4620</span>	<span style="border: 1px solid black; padding: 0 5px;">4621</span>	<span style="border: 1px solid black; padding: 0 5px;">4622</span>	<span style="border: 1px solid black; padding: 0 5px;">4623</span>	<span style="border: 1px solid black; padding: 0 5px;">4624</span>	<span style="border: 1px solid black; padding: 0 5px;">4625</span>
▼ 35 <span style="border: 1px solid black; padding: 0 5px;">4630</span>	<span style="border: 1px solid black; padding: 0 5px;">4631</span>	<span style="border: 1px solid black; padding: 0 5px;">4632</span>	<span style="border: 1px solid black; padding: 0 5px;">4633</span>	<span style="border: 1px solid black; padding: 0 5px;">4634</span>	<span style="border: 1px solid black; padding: 0 5px;">4635</span>
▼ 36 <span style="border: 1px solid black; padding: 0 5px;">4640</span>	<span style="border: 1px solid black; padding: 0 5px;">4641</span>	<span style="border: 1px solid black; padding: 0 5px;">4642</span>	<span style="border: 1px solid black; padding: 0 5px;">4643</span>	<span style="border: 1px solid black; padding: 0 5px;">4644</span>	<span style="border: 1px solid black; padding: 0 5px;">4645</span>
▼ 37 <span style="border: 1px solid black; padding: 0 5px;">4650</span>	<span style="border: 1px solid black; padding: 0 5px;">4651</span>	<span style="border: 1px solid black; padding: 0 5px;">4652</span>	<span style="border: 1px solid black; padding: 0 5px;">4653</span>	<span style="border: 1px solid black; padding: 0 5px;">4654</span>	<span style="border: 1px solid black; padding: 0 5px;">4655</span>
▼ 38 <span style="border: 1px solid black; padding: 0 5px;">4660</span>	<span style="border: 1px solid black; padding: 0 5px;">4661</span>	<span style="border: 1px solid black; padding: 0 5px;">4662</span>	<span style="border: 1px solid black; padding: 0 5px;">4663</span>	<span style="border: 1px solid black; padding: 0 5px;">4664</span>	<span style="border: 1px solid black; padding: 0 5px;">4665</span>
▼ 39 <span style="border: 1px solid black; padding: 0 5px;">4670</span>	<span style="border: 1px solid black; padding: 0 5px;">4671</span>	<span style="border: 1px solid black; padding: 0 5px;">4672</span>	<span style="border: 1px solid black; padding: 0 5px;">4673</span>	<span style="border: 1px solid black; padding: 0 5px;">4674</span>	<span style="border: 1px solid black; padding: 0 5px;">4675</span>
▼ 40 <span style="border: 1px solid black; padding: 0 5px;">4680</span>	<span style="border: 1px solid black; padding: 0 5px;">4681</span>	<span style="border: 1px solid black; padding: 0 5px;">4682</span>	<span style="border: 1px solid black; padding: 0 5px;">4683</span>	<span style="border: 1px solid black; padding: 0 5px;">4684</span>	<span style="border: 1px solid black; padding: 0 5px;">4685</span>
▼ 41 <span style="border: 1px solid black; padding: 0 5px;">4690</span>	<span style="border: 1px solid black; padding: 0 5px;">4691</span>	<span style="border: 1px solid black; padding: 0 5px;">4692</span>	<span style="border: 1px solid black; padding: 0 5px;">4693</span>	<span style="border: 1px solid black; padding: 0 5px;">4694</span>	<span style="border: 1px solid black; padding: 0 5px;">4695</span>

TOTAL \$ N/A 4699

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**Instructions:** Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

**WITHDRAWAL CODE: DESCRIPTION**

1. Equity Capital
2. Subordinated Liabilities
3. Accruals
4. 15c3-1(c)(2)(iv) Liabilities

See notes to financial statements

# FIRST AUSTIN INVESTMENTS

## STATEMENT OF CASH FLOWS

Year ended December 31, 2003

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### INCREASE (DECREASE) IN CASH

#### *Cash flows from operating activities*

Commissions received	\$ 394,988
Clearing expenses, filing fees and operating expenses paid	<u>(83,006)</u>
Net cash provided by operating activities	<u>311,982</u>

#### *Cash flows from financing activities*

Capital contribution	20,000
Dividends paid	<u>(306,631)</u>
Net cash used for financing purposes	<u>(286,631)</u>

Net increase in cash	25,351
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#### *Cash*

Beginning of year	<u>351</u>
End of year	<u>\$ 25,702</u>

### RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net income	\$ 390,128
Gain on investments	(38,713)
Increase in accounts receivable	(41,867)
Increase in accrued expenses	<u>2,434</u>
Net cash provided by operating activities	<u>\$ 311,982</u>

# **FIRST AUSTIN INVESTMENTS**

## **NOTES TO FINANCIAL STATEMENTS**

**Year ended December 31, 2003**

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### **(1) BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***NATURE OF ORGANIZATION***

Texas Capital, Inc., doing business as, First Austin Investments (the "*Company*"), a fully-disclosed introducing broker-dealer located in Austin, Texas, is registered with the Securities and Exchange Commission (SEC), the State Securities Commissions of Texas and the National Association of Securities Dealers, Inc. The Company is engaged primarily in institutional and retail securities brokerage services. The Company began operations August 30, 2002.

#### ***REVENUE RECOGNITION***

Securities transactions and related revenues and expenses are recorded on a settlement date basis.

#### ***INCOME TAXES***

The Company files its taxes with its parent company, First Austin Capital Management. First Austin Capital Management will assume any tax liability and as such there is no provision for corporate income taxes in the accompanying financial statements.

#### ***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **(2) REGULATORY REQUIREMENT**

The Company is exempt from the provisions of Rule 15c-3-3 of the Securities Exchange Act of 1934 (reserve requirement for brokers and dealers) as covered in Rule 15c3-3 (k) (2) in that it does not hold funds or securities for customers and it promptly transmits all funds and delivers all securities in connection with its activities as a broker or dealer.

The Company, as a registered broker-dealer, is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC Rule 15c3-1). This rule requires that the Company maintain minimum net capital, as defined, of at least the greater of \$5,000 or 6-2/3% of aggregate indebtedness, as defined. Net capital and aggregate indebtedness change from day to day, but as of December 31, 2003, the Company had net capital of \$149,576 which exceeded its net capital requirement of \$5,000 by \$144,576. The Company's ratio was .04 to 1 of aggregate indebtedness to net capital.

## **FIRST AUSTIN INVESTMENTS**

### ***NOTES TO FINANCIAL STATEMENTS – (Continued)***

**Year ended December 31, 2003**

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#### **(3) DUE FROM CLEARING BROKERS**

The Company always introduces its clients' transactions on a fully disclosed basis to its clearing broker for execution, clearance, and depository operations in accordance with the terms of their clearing agreement. In connection therewith, the Company has agreed to indemnify the clearing brokers pursuant to the terms of its clearing agreement.

#### **(4) CONCENTRATION OF RISK**

The Company maintains bank accounts which may exceed federally insured limits. Historically, they have not experienced any credit related losses.

**TAIT, WELLER & BAKER**  
*Certified Public Accountants*

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5**

**To the Shareholders  
First Austin Investments  
Austin, Texas**

In planning and performing our audit of the financial statements of First Austin Investments (the "**Company**") for the year ended December 31, 2003, we considered its internal control, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13, or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003, to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Tait Wether-Baker".

**Philadelphia, Pennsylvania**  
**February 16, 2004**